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SUBJECT: BRAZIL'S 2010 ELECTIONS: ONE YEAR OUT

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Classified By: Charge D'Affaires Lisa Kubiske for reasons 1.4 (b) and (d).

1. (SBU) Summary. One year before Brazil's October 2010 national elections, Social Democratic Party (PSDB) presidential candidate Jose Serra continues to lead Labor Party (PT) hopeful Dilma Rousseff in the polls, while PMDB, Brazil's largest party, uses its bargaining leverage to maintain its advantages in parliament and in key state races. President Lula has further solidified the PT-PMDB alliance in recent weeks, but is having difficulty herding the center-left parties in his coalition, some of which are launching their own presidential candidates. The October 3 deadline for party switching and electoral reform produced a flurry of movement, including party switches by both the Foreign Minister and the Central Bank President. These moves presaged a potential forthcoming exodus of over half the ministers in Lula's cabinet by April 3, the date by which candidates must declare themselves for office; such an event would dramatically reduce Brazil's governing capacity during the campaign season. Congress will likewise lose impetus by April, increasing the need for a strong push by Lula in order to enact Pre-Salt oil exploration and other key legislative objectives considered crucial to the campaign. Observers from all sides expect the presidential race to tighten considerably as the election approaches, with the final outcome depending in large part on Lula's ability to transfer his personal popularity to Dilma while at the same time allowing her to distinguish herself from Lula as a viable presidential figure. End summary.

What's At Stake, What's to Come

2. (SBU) Brazil's national elections, to be held October 3, 2010, will feature the largest number of open races for federal and state office in over a generation. In addition to the presidential race, 54 of 81 federal senate seats, all 513 federal deputy seats, all 27 governorships, and all state deputy seats will be contested. On October 3, 2009, the deadlines passed for switching parties or residences in order to run as a candidate from that party/state, and also for passing electoral reforms related to the 2010 election. This is the first of several milestones in the next twelve months, including:

- April 3, 2010: Deadline for announcement of candidacy for all offices. State governors and members of the executive branch running for office, including cabinet members, must resign;
- June 10: Commencement of political party nominating conventions for all offices;
- July 3: Parties and candidates can start advertising on

radio, television, and the internet;
- July 17: The Electoral Tribunal (TSE) will allocate radio and television advertising to parties;
- September 13: TSE must confirm the correct functioning of vote machines;
- October 3: Election Day, First Round;
- October 31: Election Day, Second Round. A second and final round is held when the leading candidate for a given office receives less than 50 percent of the vote in the first round. Only the top two candidates are eligible to compete.

One-Year Deadline

13. (C) In the two weeks leading to the October 3 deadline, five senators and at least 33 federal deputies switched parties. The high number of party switches reflects the non-ideological nature of Brazilian politics and is standard operating practice here among officials seeing greater opportunity elsewhere. (During an October 6 Embassy meeting with Senate Foreign Relations Committee Chairman Eduardo Azeredo, Sao Paulo Deputy William Woo cheerfully entered midway through and, despite having left Azeredo's PSDB for PPS the previous week, was well received by the Chairman.) The PSDB, which picked up three senate seats and several deputy seats, was the biggest winner in the shuffle, while PMDB and DEM, the second largest opposition party, both suffered significant losses. Small parties fared surprisingly well, especially the opposition PSC. House Foreign Relations Committee Chairman Severiano Alves switched from PDT to PMDB (both parties within the governing coalition) and left Congress altogether in order to prepare

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for a run as Vice-Governor in his home state of Bahia. Damiao Feliciano, also PDT and from the northeastern state of Paraiba, took over October 8 as Committee Chairman.

14. (C) While most switchers are relatively obscure figures, two high-profile ministers switched parties while a presidential candidate changed residence. After much speculation, Central Bank President Henrique Meirelles announced his move from non-aligned to PMDB, where he is expected to run for Senate from Goias state, but might run instead for Governor. Embassy sources, including Sen. Romero Juca (PMDB-RO), have told us that Meirelles' transfer confirms rumors that he is also a top-tier potential vice-presidential candidate for Dilma. (It is broadly expected that PMDB will get the Vice slot on Dilma's ticket, with Chamber of Deputies President Michel Temer most often named as the leading contender.) Foreign Minister Celso Amorim officially switched from PMDB to PT, but there are no indications at this point that he will step down to run for office in his home state of Rio de Janeiro. Finally, Ciro Gomes switched his residence from the northeastern state of Ceara to his birth state, Sao Paulo, in a move that allows him to both run for President on the PSB ticket and, potentially, to switch gears to run for Governor of Sao Paulo if his presidential campaign falters. See ref C for more on Gomes.

Election Law, Internet and the Media

15. (SBU) President Lula also signed on September 29 the law that will define the rules for the 2010 elections. The more interesting changes include rules to permit campaign contributions and electioneering via the internet, to increase participation of minor candidates in television/radio debates, and to introduce absentee voting. Many here believe, as the chief PSDB-affiliated advisor to the Senate Foreign Relations Committee told poloff recently, that PT is better prepared to take advantage of rule changes liberating the use of media and the internet but that his party and several others will catch up in time. The new legislation has been widely panned by Embassy contacts --

including some senators who voted for the law -- for actually reducing federal oversight over party campaign activities and expenditures. Although the deadline for electoral reform has passed, a petition drive has gathered enough signatures to authorize Congress through June 5 to pass legislation to prohibit candidates convicted of crimes to run for office. It is unclear whether PMDB leadership, which has taken the lead in opposing such legislation, will allow such a bill to pass.

Ministerial Exodus, Congressional Paralysis

¶6. (C) Both Congress and the ministries will be in a hurry to produce as many electoral deliverables as possible before the April 3 deadline for declaring candidacies. Ministers who declare are required to step down for their positions, which means that no minister has officially declared his or her candidacy at this point -- even those who are already actively campaigning. Media and Embassy sources suggest that over half of Lula's 37-member candidate will run for office, most notably Chief-Minister Dilma Rousseff and Meirelles, but also the Ministers of Justice, Energy, Social Security, Education, Environment, Planning, Labor, Communications, Agriculture and several others. It is still unclear when ministers will declare their candidacies and depart their ministries, but recent media reports indicate that Dilma will officially launch her presidential bid at the PT Annual Convention, which takes place February 18-21. In Meirelles' case, Dep. Antonio Carlos Magalhaes Neto (DEM-BA) told poloff on October 9 that Meirelles will not announce the office he will run for until a week before the deadline because "Lula needs to keep him in his current position as long as possible." Other ministers, he said, will be free to announce earlier.

¶7. (C) Congress will also be under pressure for progress before the campaign starts in earnest, particularly on the Pre-Salt oil exploration legislation, but also on a range of minor social assistance and education initiatives expected to be launched shortly. The governing coalition still holds a strong position in the Chamber of Deputies but the recent round of party switches complicates matters for Lula in the Senate, where his coalition officially suffered a net loss of three seats but unofficially two more. Sen. Arthur Virgilio (PSDB-AM), the leader of his party in the Senate, outlined for poloff on October 7 member-by-member how this would affect the President's ability to pass the legislation he desires. Virgilio counted only 40 firm votes for the

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governing coalition on key party-line matters, and pointed out specific coalition members likely to jump ship on key issues, including Venezuela's accession to Mercosul -- which he said did not currently have the votes to pass either the Foreign Relations Committee or the full Senate due to worries about Hugo Chavez. Virgilio also emphasized that Dilma needs to maintain her viability in the oil-producing states of Sao Paulo, Rio de Janeiro, and Espirito Santo, as do the seven senators from those states belonging to coalition parties. This will make it very difficult to pass Pre-Salt legislation with the distribution of royalties scheme that Lula and Dilma would prefer.

Prospectus: President

¶8. (SBU) Dilma will need signature accomplishments in Congress to raise her presidential profile to compete with Sao Paulo Governor Jose Serra (PSDB), the front-runner for the Presidency. Serra is pulling 36 to 43 percent in recent polls, roughly 20 points ahead of Dilma, who has seen her support on the left eroded by PSB candidate Ciro Gomes and PV candidate Marina Silva, both of whom are polling nearly even with Dilma. Heloisa Helena (PSOL), though barely visible in the news for months and possibly not even running, also polls

around 10 percent. Serra has benefitted immensely from the negative publicity created by PT's marriage of convenience with the PMDB (ref A). Also, Dilma's perceived lack of charisma makes her, in the words of Sen. Azeredo (PSDB), "the perfect opponent" for Serra because she is unable to take advantage of Serra's own lack of personal magnetism. The difficulty for Serra, who enjoyed a similarly strong early lead when running for President in 2002, will be to translate the support from his base to other parts of the country and to lower income brackets. Recent state polls indicate that Serra's support tops 50 percent in Sao Paulo and nearly so in the three states to the south, but falls to the 10-25 percent range everywhere else, including Rio and Brasilia. Many PSDB leaders are pushing reluctant Minas Gerais Governor Aécio Neves (ref D & E), who would rather be President himself or perhaps President of the Senate, to accept the vice-presidency to shore up support from his large state and potentially put an all-PSDB ticket over the top.

¶9. (SBU) Observers from all sides acknowledge that, barring a major health crisis for Dilma or Serra, the "x factor" in this campaign will happen in the final weeks, when Lula's undereducated base in the northeast starts to pay attention to the race. In a country where less than ten percent of voters belong to a political party but voting is mandatory and voter participation rates run in the high 90s, final election results do not reflect the early polls. The advisor to a prominent opposition parliamentarian from Pernambuco told poloff that he expects Serra to win the first round, but expects Dilma to rise dramatically in the last week out of voter loyalty to Lula. In the second round, he worries, "If they add up the votes of all four of them (Dilma, Ciro, Marina, Helena), they win." Another opposition party advisor from the Northeast told poloff to watch out for Ciro, whom he characterized as "the only person who can beat Serra, even if he doesn't win himself." Ciro has lately been playing an attack dog role in the campaign against Serra, while Dilma and Serra have been reluctant to engage one another directly.

Prospectus: Parliament and Governors

¶10. (C) Governor, Senate, Federal Deputy, and State Deputy races in each state will be heavily influenced by the needs of the leading parties in the Presidential race. The key dynamic to watch will be between PMDB, which wants to retain its position as the party with the most seats in all four categories, and PT, which is under pressure to throw support behind PMDB candidates in order to shore up support for Dilma's presidential bid. With few candidates officially declared, it is too early to predict how these races will go, but the general consensus in Brasilia is that PSDB stock is rising and PMDB falling at the federal level. The PMDB already lost two senators and ten deputies in party-switching season, and legislators are increasingly confident that PMDB will lose its pre-eminent position at the federal level. In a reference to the damage done by the recent scandal involving Senate President Jose Sarney, Sen. Virgilio told poloff, "Thanks to Sarney, PMDB is about to become a state-level party." A PT-affiliated Senate advisor told us much the same, but believed that PT and smaller parties within the governing coalition, rather than the opposition, would gain at PMDB expense. At the state level, PMDB remains in solid position to retain or increase its governorships, with strong candidates in key states such as Rio de Janeiro, Minas Gerais (PSDB-held), and Bahia

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(PT-held).

Comment: Stay Tuned!

¶11. (C) While Brazil's 2010 national elections appear to be moving toward a PT-PSDB presidential showdown, with Serra leading and Dilma expected to make up ground toward the end,

it will be months before dependable outlines of the election environment take shape. The first few months of 2010 will bring focus, as candidates officially declare, state-level alliances with national implications further crystallize, and ministers depart their posts. The late 2009-early 2010 dynamic between Congress and Lula, who will be in a hurry to pass legislation ranging from Pre-Salt to social program reform to Mercosul accession, may bring to the forefront policy differences in an election race that has thus far been about personalities and image. Even if policy issues do not grow in importance, the debates will indicate how the two major coalitions, if elected, could address issues of interest to the United States. End comment.

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